

# Creating a Model for Integrated Financial Management

Nizhny Novgorod, Russia

## Background

Nizhny Novgorod, noted for being one of the most reform oriented cities in Russia, was anxious to upgrade its financial management practices and procedures. The city lacked automated financial operations, the ability to integrate its budget planning and execution functions at both the central and district level of the city, and adequate audit control. To fill these gaps, Nizhny Novgorod finance department officials decided to implement budgeting practices and install accounting software, Local Government Financial Systems (LGFS), used in many major U.S. cities. The city determined that the LGFS would significantly strengthen budget planning and execution and financial audit and control and that it could be modified to accommodate the Russian federal reporting requirements. The software would provide city officials with much wider access to financial data and greater transparency of budget information.

## Innovation

In June 1995, the city established an integrated computer network linking the central finance department with the eight district finance departments. This computer network eliminated the inefficient practice of double entry of city financial transactions. Next, the LGFS software was modified for use in the Russian fiscal environment. The main modules of LGFS targeted for adaptation were: budgeting, planning, general ledger, revenue accounting, expenditure accounting, accounts payable, cash disbursements, and external reporting. The challenge was to maintain the functional integrity of the LGFS software, while adapting it to comply with Russian laws and meet the reporting needs of the Ministry of Finance. Two local working teams were formed to oversee modification of the software. The first team was a committee of budget and accounting personnel, and the second team was a recently-established firm specializing in computer programming. The working committee provided guidance on adapting the software to the federal budget classification and financial reporting requirements. The programming firm received initial training from the U.S. software provider and then proceeded to implement the major modifications independently. Together, the working committee and the programming firm wrote a training manual with on-line examples to train the finance department personnel in the new system. Currently, the two teams are providing guidance on how the practices and procedures of the finance department must change to accommodate the new, advanced system. Full operation of the Russian version of the LGFS software is set for December 1996.

## Results

The introduction of this innovative practice in Nizhny Novgorod led to the first integrated financial management system for Russia. The experience gained by the local programming firm in the conversion process has given it the capacity to replicate functional aspects of the Russian LGFS in its own software products. More importantly, the transparency and control features of the system will enable the city administration to be more responsive to citizen needs and improve its decision-making process. Lastly, the system will enable the city to attract investors who are concerned with the openness and accuracy of the city's financial status and practices.

## Summary

To upgrade its financial management practices and procedures, the City of Nizhny Novgorod established an integrated computer network and installed budgeting and financial management software adapted to comply with Russian laws and reporting needs. The transparency and control features of the system will enable the city to be more responsive to citizen needs, improve its decision-making process, and attract investors.

For more information contact:

**Vyacheslav Aksinyin, Deputy Director, Department of Finance, Nizhny Novgorod City Administration**  
Tel. 8312-32-70-58  
Fax 8312-32-70-73